CIA/OSR /MEMO EF 75 1008 CHTNESE DEFENSE SPENDING SECRET

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SEGRET

CIA OSR

MEMO EF 751008

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Date: 8 October 1975

D/OSR Approval:

Classification: SECRET

Cable for

Reference



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- 1. OUR ESTIMATES OF CHINESE DEFENSE SPENDING

 ARE SUBJECT TO A NUMBER OF UNCERTAINTIES AND SHOULD

 BE TREATED ONLY AS ROUGE APPROXIMATIONS. WE CALCULATE

 THAT CHINESE MILITARY FORCES AND PROGRAMS WOULD COST

 \$US 25 TO 30 BILLION ANNUALLY IF PURCHASED AND

 OPERATED IN THE US. THIS SHOULD NOT BE COMPARED WITH

 GNP ESTIMATES BECAUSE OF DIFFERENCES IN METHODOLOGIES.

 WHEN THE PROPER ADJUSTMENTS ARE MADE, WE BELIEVE THE

 DEFENSE SHARE OF GNP TO BE SOMETHING LESS THAN 10

 PERCENT.
- 2. MEASURED IN DOLLAR TERMS, THE SHARE OF TOTAL SPENDING APPORTIONED TO EACH SERVICE IS MISLEADING DUE TO OVERPRICING PERSONNEL. A BETTER MEASURE IS THE ALLOCATION OF PROCUREMENT COSTS. OF THE ESTIMATED \$US 3 TO 4 BILLION IN ANNUAL PROCUREMENT COSTS

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(EXCLUDING THE \$US 1 TO 2 BILLION ESTIMATED FOR RDT&E), WE FIND THAT THE ARMY RECEIVES ABOUT 35

PERCENT, THE NAVY 30 PERCENT, THE AIR FORCE 25

PERCENT, AND COMMAND AND GENERAL SUPPORT 10 PERCENT.

CONSTRUCTION OF MILITARY FACILITIES IS BELIEVED TO COST LESS THAN \$US 1 BILLION YEARLY.

THAT THERE HAS BEEN 25X1C

LITTLE INCREASE IN DEFENSE SPENDING AND THAT DEFENSE

AS A PERCENTAGE OF GNP HAS DECLINED. A MORE COMPLETE

EXPOSITION OF OUR VIEWS CAN BE FOUND IN THE ARTICLE

BY

IN THE JOINT ECONOMIC COMMITTEE

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END OF MESSAGE

SECRE Hepacouction by Other that כוודומואפהיו כו צסוקים באוטפמו 25X1ASTAFF 3 11 VR 11 175 25X1A OFRIS 364801 EI 4375 PAGE Ø1 TOR: 0703112 OCT 75 S E C R E T 0702503 OCT 75 STAFF 25X1A CITE 25X1A TO: DIRECTOR. 25X1A DDI FOR 25X1C IS INTERESTED IN OBTAINING AGENCY'S ESTIMATES ON HOW CHINESE APPORTION DEFENSE EXPENDITURES. ACCORDING TO 25X1C A STUDY OF THE CHINESE ECONOMY PUBLISHED BY THE JOINT ECONOMIC COMMITTEE OF THE US CONGRESS INDICATED THAT CHINESE DEFENSE EXPENDITURES LAST YEAR AMOUNTED TO SUS 12 BILLION OUT OF AN ESTIMATED GNP OF SUS 220 BILLION. NOTED THAT A GREAT DEAL OF SPECULATIVE 25X1C 25X1C ANALYSIS WAS INVOLVED IN SUCH ESTIMATES, BUT WAS HOPEFUL AGENCY COULD PROVIDE ITS ESTIMATES OF HOW MUCH THE CHINESE APPORTION TO THE THREE SERVICES AS WELL AS HOW MUCH THEY ARE 25X1C SPENDING ON RESEARCH AND DEVELOPMENT, EQUINENT PROCUREMENT, FACILITIES, AND PERSONNEL NOTED THAT THERE WERE DIFFERENCES ON CHINA'S DEPENSE BUDGET, STATING THAT HE PERSONALLY BELIEVES THAT THERE WAS HARDLY BEEN ANY INCREASE AT ALL IN DEFENSE SPENDING AND THAT DEFENSE AS A PERCENTAGE OF Approved For Release 2001(08/21 @A-RDP86F00608R090700190006-9

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THE GNP HAS DECLINED. HE THOUGHT DATA PROVIDED BY WASHINGTON COULD HELP RESOLVE SOME OF THESE DIFFERENCES.

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CAN PROVIDE.

IS A PARTICULARLY USEFUL AND COOPERATIVE
CONTACT, E2 IMPDET.

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